

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /109 W
-----121819Z 039513 /43

R 121702Z APR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7317
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 06303

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING APRIL 11)

REF.: BONN 6019, BONN 6191 AND BONN 5071

1. FOREIGN EXCHANGE MARKET:
DUE IN PART TO REACTIONS TO RECENTLY RELEASED FIGURES ON
PRICE DEVELOPMENTS IN THE U.S. AND THE FRG (SEE PARA 7)
THE DOLLAR WEAKENED SHARPLY ON GERMAN FOREIGN EXCHANGE
MARKETS ON TUESDAY, APRIL 12. FOREIGN EXCHANGE MARKETS
WERE CLOSED ON APRIL 8 AND 11 DUE TO THE EASTER HOLI-
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DAYS. DURING THE REPORTING PERIOD, FRANKFURT SPOT AND
FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
SPOT DOLLARS (IN PCT. PER ANNUM)
OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

APR 4	2.3850	2.3860	2.3895	-1.2	-0.9
5	2.3887	2.3890	2.3875	-0.8	-0.8
6	2.3880	2.3876	2.3870	-0.8	-0.9
7	2.3870	2.3873	2.3865	-1.0	-0.9
12	2.3805	2.3778	N.A.	N.A.	N.A.

2. MONEY MARKET:

ALTHOUGH THERE WAS SOME SLIGHT EASING IN ONE AND THREE-MONTH MONEY RATES DURING THE REPORTING PERIOD, THE CALL MONEY RATE CONTINUED TIGHT - AT ABOUT THE LEVEL OF THE LOMBARD RATE. OBSERVERS SAY THAT THE TIGHTNESS CAN BE ATTRIBUTED PARTIALLY TO A LARGE INCREASE IN CURRENCY IN CIRCULATION WHICH IS NORMAL DURING THE EASTER HOLIDAY PERIOD. FRANKFURT CALL, ONE-MONTH AND THREE-MONTH MONEY INTERBANK RATES DURING THE PAST WEEK WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

APR 4	4.4-4.5	4.55	4.65
5	4.4-4.5	4.55	4.65
6	4.4-4.6	4.50	4.60
7	4.4-4.6	4.50	4.60

3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD MARCH 24-31, THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.1 BILLION TO DM 86.4 BILLION. FOREIGN EXCHANGE HOLDINGS FELL BY DM 176 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 70 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 8

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MILLION.

4. BANK LIQUIDITY:

DURING THE SAME PERIOD, BANK LIQUIDITY INCREASED BY DM 2.9 BILLION REFLECTING THE USUAL END OF MONTH PAYMENTS OF PUBLIC AUTHORITIES. DUE TO SUCH PAYMENTS THE FEDERAL GOVERNMENT'S BUNDESBANK ASSETS DECLINED BY

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DM 5.3 BILLION TO DM 3.1 BILLION AND ASSETS OF THE STATE
GOVERNMENTS BY DM 3.6 BILLION TO DM 5.8 BILLION.
ASSETS OF THE BUNDESPOST, ON THE OTHER HAND, INCREASED
BY DM 1.6 BILLION. OTHER FACTORS INCREASED LIQUIDITY,
NET, BY DM 2.0 BILLION. FACTORS REDUCING LIQUIDITY
WERE THE USUAL INCREASE IN CURRENCY IN CIRCULATION
AT THE END OF A MONTH (DM 4.2 BILLION), A DM 1.8
BILLION INCREASE IN THE BANKS HOLDINGS OF RESERVES AT
THE BUNDESBANK, DM 0.3 BILLION OF BUNDESBANK SALES OF
OPEN MARKET PAPER AND THE ABOVE-MENTIONED DECLINE IN
THE BUNDESBANK'S FOREIGN POSITION.

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THE BANKS USED THE INCREASE IN LIQUIDITY TO REPAY
DM 2.8 BILLION OF LOMBARD BORROWINGS REDUCING SUCH
BORROWINGS TO DM 1.6 BILLION. THEY FURTHER REPAID
DM 0.2 BILLION OF BORROWINGS FROM THE BUNDESBANK MADE
UNDER THE SPECIAL REDISCOUNT FACILITY. ON MARCH 31,
SUCH BORROWINGS AMOUNTED TO DM 3.2 BILLION. AT THE
SAME TIME, THE BANKS INCREASED NORMAL REDISCOUNT
BORROWINGS BY DM 0.1 BILLION TO DM 16.4 BILLION.

5. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS THE RAPID PRICE INCREASES PREVAILING SINCE MID-MARCH CONTINUED DURING THE PERIOD UNDER REVIEW. ON APRIL 7, THE 6 3/4 PERCENT FEDERAL LOAN OFFERED ON APRIL 4 (SEE BONN 6019) WAS QUOTED AT 100.35 AS COMPARED WITH ITS ISSUE PRICE OF 99 1/2.

ON APRIL 7, THE KINGDOM OF SWEDEN WILL OFFER A DM 250 MILLION LOAN (COUPON 6 1/2 PERCENT, ISSUE PRICE 100 1/2, MATURITY 7 YEARS, YIELD TO MATURITY 6.41 PERCENT). THE DRESDNER BANK, LEADING THE UNDERWRITING CONSORTIUM, WILL, TOGETHER WITH THE DEUTSCHE BANK, TAKE OVER DM 50 MILLION OF THE LOAN; THE REMAINDER WILL BE PUBLICLY SOLD.

6. INTEREST RATE REDUCTION:

FOLLOWING THE REDUCTION IN YIELDS ON FEDERAL SAVINGS BONDS (SEE BONN 6019) THE BUNDESBANK, EFFECTIVE APRIL 7, 1977, ALSO REDUCED DISCOUNT RATES ON MONEY MARKET PAPER NOT RETURNABLE BEFORE MATURITY TO THE BUNDESBANK. AT THE SAME TIME, IT AGAIN REDUCED RATES ON SO CALLED FINANZIERUNGSSCHAETZES (SEE BONN 5071) WHICH IS PAPER PURCHASED BY INDIVIDUALS AND FIRMS TO COVER ANTICIPATED TAX PAYMENTS. NEW RATES FOR BOTH TYPES OF PAPER AND, FOR COMPARISON, PREVIOUS RATES ARE AS FOLLOWS:

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MATURITY (MONTHS)

 6 12 18 24

NEW NOMINAL RATE	3.90	4.25	4.65	5.00
YIELD TO MATURITY	3.98	4.44	4.92	5.41
PREVIOUS NOMINAL RATE	4.15	4.50	4.90	5.25
YIELD TO MATURITY	4.24	4.71	5.20	5.70

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IN REACTION TO INTEREST RATE REDUCTIONS ON FEDERAL
SAVINGS BONDS AND MONEY MARKET PAPER THE ASSOCIATION
OF GERMAN SAVINGS BANKS HAS RECOMMENDED THAT ITS MEMBER
BANKS REDUCE INTEREST RATES ON SAVINGS DEPOSITS. IT IS
EXPECTED THAT THE RATE FOR SAVINGS DEPOSITS WITH LEGAL
PERIOD OF NOTICE (THREE MONTHS) WILL BE REDUCED FROM
3 1/2 PERCENT TO 3 PERCENT WITH PROBABLY SLIGHTLY LARGER
REDUCTIONS ON DEPOSITS WITH LONGER MATURITIES. SOME
SAVINGS BANKS REPORTEDLY HAVE ALREADY REDUCED THEIR
RATE. COMMERCIAL BANKS WILL PROBABLY ALSO REDUCE SAVINGS
INTEREST RATES IN ABOUT THE SAME AMOUNT.
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7. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL)

DEC. JAN. FEB. MARCH

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LIVINGS COSTS	3.9	4.1	4.0	3.9	
INDUSTRIAL PRODUCER PRICES	4.3	4.2	3.8	--	
AGRICULTURAL PRODUCER PRICES	1.6	0.1	-2.6	--	
IMPORT PRICES	3.3	4.1	4.9	--	
EXPORT PRICES	3.1	2.2	2.3	--	

UNEMPLOYMENT, IN SEASONALLY ADJUSTED TERMS, DECLINED FROM 992,000 IN FEBRUARY TO 988,000 IN MARCH. NON-SEASONALLY ADJUSTED UNEMPLOYMENT DATA FOR MARCH WERE REPORTED IN BONN 6019. SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION FIGURES FOR FEBRUARY ARE CONTAINED IN BONN 6191.

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